ICHA "State of the Sector" survey 8
May 2022

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ICHA State of the Sector Survey 8 Foreword

It is a great pleasure to again provide the foreword to the annual 'State of the Sector' survey of members of the Independent Children's Homes Association. My colleagues and I at the Institute of Public Care at Oxford Brookes University (IPC) work across the UK to help local authorities, providers, and their partners to drive improvements in care, and a key issue for us continues to be the difficulties that partners across sectors have in building strong collaborative arrangements to better meet the needs of children and young people. Much of this, we are convinced, is due to relatively poor understanding about the challenging realities facing us all in responding to increasingly complex and demanding needs.

While this year has seen a huge amount of public, political and press interest in this area, including most recently the report from the Independent Care Review to the UK Government, it remains difficult to get the reliable information and analysis so many of us need to be able to respond effectively.

Well done the ICHA then – it remains determined to promote better understanding, and to do so in a consistent and measured way over time. This report builds on the body of evidence from ICHA surveys over almost a decade about the realities facing those who run children's homes. It is an important source of intelligence and benchmarking for them, and for commissioners, practitioners, policy makers and perhaps care experienced people themselves.

Of course, the Covid-19 pandemic has had a huge impact on the sector and this survey gives us some really helpful analysis of this, along with important messages about costs, investment, staffing and capacity. The overall response rate and the commentary convinces me that the sector remains serious about working in partnership to improve the care experience. However, the political or media landscape changes over time, it will always eventually be down to partners across sectors working together to use resources wisely in the pursuit of better care and better outcomes for children and young people, and we need surveys like this to help us do this.

ICHA and Andrew Rome have done a great job, and this report is their latest important contribution to an increasing body of knowledge and to improving understanding between partners across the care system.

Emeritus Professor Keith Moultrie
Institute of Public Care
Oxford Brookes University
June 2022

ICHA "State of the Sector" survey 8 May 2022.

Overview.

This is the eighth, and most comprehensive survey of members of the Independent Children's Homes Association (ICHA), a series that began in 2015.

The focus on the sector has never been greater. Since the last survey in November 2020 the Competition and Markets Authority (CMA) and the Independent Care Review (IR) have studied and reported on the sector. Unlike those studies, this survey does not limit its focus only to the largest providers, but instead also aims for a balanced representation for small and medium sized organisations that still provide most of the capacity in the UK.

This report provides insight to the reality behind the headlines from the CMA and IR. It shows evidence of significant increase in demand with increasingly untargeted searching for placement vacancies by purchasers.

Providers sit at the crossroads of severe pressures. They seek to find ways to take placements to support local authorities from whom the forecasting of demand and commissioning of services ahead of that demand arising is widely seen as ineffective, and increasingly so in this survey. At the same time providers must meet the professional imperative to match children presenting with increasingly complex needs with both the service's capabilities and with other children in the home. Failing to maintain the boundaries that good matching demands rightly risks the wrath of Ofsted and potential suspension or closure of the service.

We should perhaps take some encouragement from the fact that the unprecedented demand does not always result in full or high occupancy rates. It is a positive sign that providers put the needs of matching young people ahead of the economic benefit to be gained from full occupancy.

The growth in demand for services is clearly recognised by providers and this survey describes the appetite from providers to invest in capacity expansion as we emerge from a pause related to Covid.

However, providers are at the same time wrestling with staffing shortages and volatility that together inhibit such development and at the same time add significant cost inflationary pressures to the existing operations where staff costs are the dominant element of the costs of running children's homes.

Profit levels reported by this survey are much lower than those of the largest providers alone, and there are signs that the staffing pressures and cost of living increases are beginning to limit the sector's ability to generate the funds that are needed to invest to grow services.

As policy makers in England consider actions related to the IR, and in Wales the move towards an "elimination of profit" agenda, they may wish to consider that this acute focus on the sector offers new ways of engaging the dynamism and resilience offered by providers.

Once again, I offer my sincere thanks to the children's homes providers for their openness and honesty in responding to this survey. I am also grateful to ICHA for facilitating unencumbered access to their members and giving me the freedom to collect and to report information in sensitive areas that other organisations may seek to avoid.

Andrew Rome, Revolution Consulting May 2022

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<u>How responsive was the audience for the survey?</u>

This May 2022 survey continues the trend of recent years and benefits from the highest response rate of any ICHA State of the Sector survey to date with response levels to survey questions reaching up to 169 in total.

With a membership of over 280 members this response level gives a high confidence level as to how representative it is of the whole membership.[1]

The survey gathers a broad and extensive range of information, some of which is commercially sensitive, so the response rate indicates a strong level of enthusiasm amongst ICHA members who responded to provide their perspectives and experiences of the sector to a wider audience.

In the following report and analysis of the survey data the total number of responses for any given survey question will vary.

Percentages are therefore used as the normalisation factor wherever possible and are calculated based on the actual response data for each question.

[1] Statistically the high response questions are at the level of 95% confidence that the data is +/- 5% accurate in representation of the views of the whole membership.

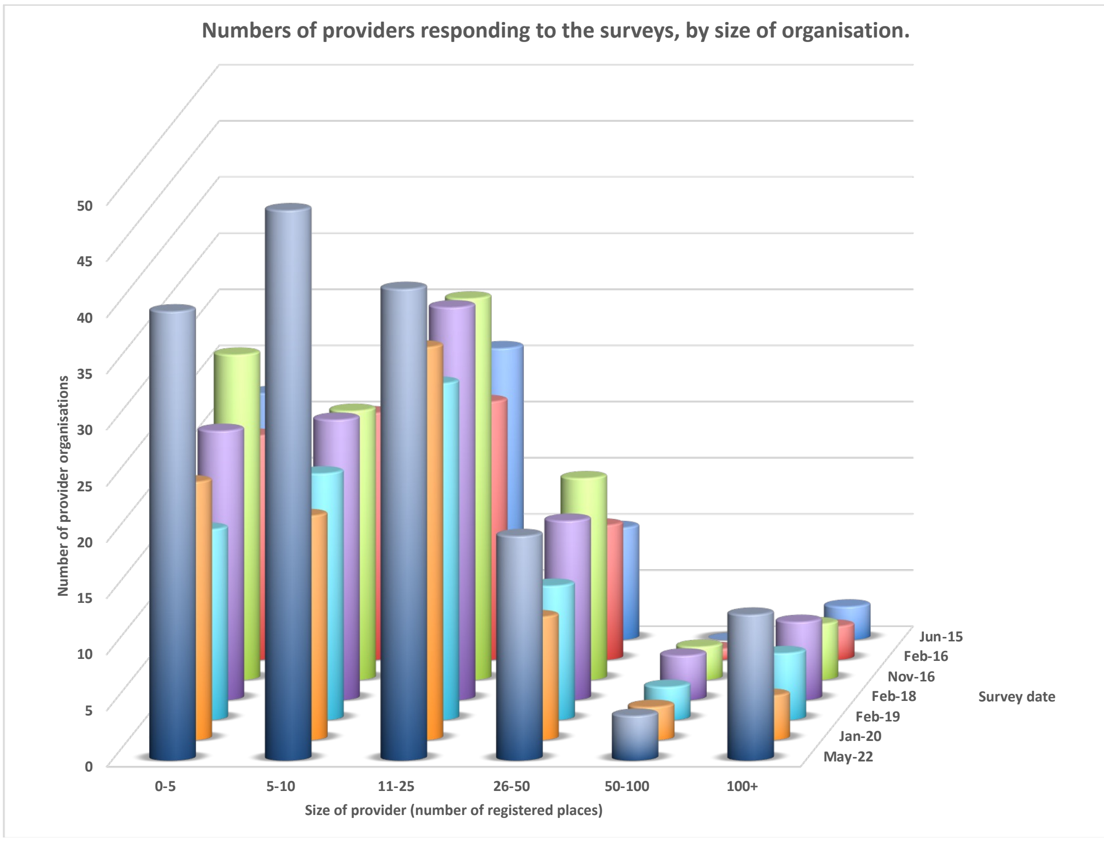
Who responded?

Only ICHA member organisations[2] were invited to respond to the survey.

Disclosure of the name of the organisation providing a response is voluntary and confidential. Of all respondents 75% identified the organisation they represent (83% last year).

Responses came from the full spectrum of providers (based on size) as illustrated below. The high response rate is reflected across all size categories but is particularly marked in the increase from the two categories representing the smallest providers (ten or fewer places) which together represent 53% of all submissions. This is an increase from 47% of replies in the November 2020 survey.

Although only making up under 8% of responses, the largest providers (over 100 places) their response rate is still double the level of the previous survey.



In the most recent Ofsted publication of statistics about children's homes (as of 31 March 2021) 79% of registered providers owned 5 or fewer homes. In this survey 75% of respondents fall into the same category indicating that the survey is likely to be reasonable representation of the independent sector as a whole.

[2] Responses are only in relation to registered children's homes. Secure homes are not covered in this report.

Ofsted data further shows that, as of 31 March 2021, 33% (30% a year earlier) of all children's homes in England are owned and operated by the top ten largest providers.[3]

The relative size of respondents is particularly important as most of the survey question feedback is recorded on the basis of "one-respondent-one-vote" so the responses are <u>not</u> weighted by the size of the provider or any other factor.

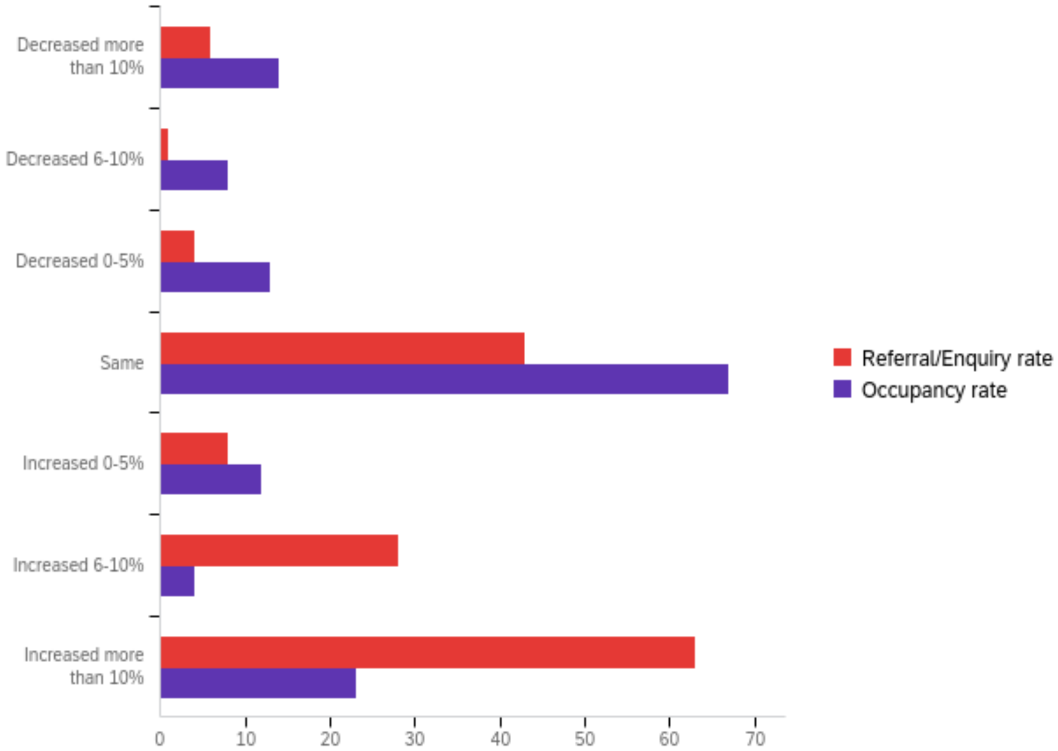
As in previous years, throughout the report there is separate highlight of the areas where the responses of the smaller providers differ significantly from those of respondents as a whole.

Almost all (98%) responses came from a single submission from the provider organisation. Where two submissions were made by any provider the more sparse reply was cleaned from the dataset, and only those replies where narrative responses and perspectives differed between the two respondents were preserved.

[3] https://www.gov.uk/government/publications/inspection-outcomes-of-the-largest-childrens-social-care-providers/largest-national-providers-of-private-and-voluntary-social-care-march-2021

Referrals and Occupancy

Referral rate and occupancy trend – numbers of providers reporting each level.



The previous mid-Covid (Nov 2020) survey reported most providers still experiencing increases in referral rates, but the increases were generally at lower levels than pre-Covid. This current survey sees a return to the trends reported before Covid struck.

Almost two-thirds of respondents (65%) reported increases in referral rates in this survey, a bounce back to pre-Covid levels and up from 55% in Nov 2020. The proportion of respondents reporting the highest rate of increase in referrals (over 10% year on year) doubled to 41%. The proportion of providers reporting a decrease in referral rate (7%) is significantly down on the 22% reporting decreases in Nov 2020.

Size of provider makes no difference to the referral trend experienced, implying a common sector-wide approach to placement finding by local authorities.

Occupancy rates are showing a slower, more balanced response. Almost half of respondents (47%) report the same levels of occupancy as a year ago, up from 38% in Nov 2020, and higher than the pre-Covid 44% in Jan 2020. One in four providers (25%) report declining rates of occupancy which is the same rate as in November, not yet returning to the lower pre-Covid levels. Similarly, at the higher rates of occupancy growth (6% or higher) 19% of respondents fall into this category, up from the 14% who reported the same in Nov 2020. However, this is not yet up to the proportions reporting the higher occupancy growth rates pre-Covid (25%).

Smaller providers experienced a similar occupancy trend to the whole provider population, with a little more stability and lower proportions reporting decline.

Taken altogether this picture signals that whilst Covid initially impacted on the previous rapid growth of referral trends the signs are of a return to high levels of referral growth more recently. Those higher referral rates do not translate into higher occupancy rates.

It has consistently been the case in these surveys since 2016 that referral rate changes and occupancy rate changes do not closely match one another. The experience of Covid has added to the factors that are involved. Other factors influencing this trend were explored in the survey and are discussed below.

The dominant narrative from the Competition and Markets Authority (CMA) and the Independent Review (IR) has been about the provider sector not being able to provide for the increasing numbers and complexity of needs arising from local authorities. The trend of increasing overall referral rates but flatter trends in occupancy is consistent with a sector not being commissioned in a way that matches the needs arising.

The description offered by respondents of the factors influencing referral rates and the impact on occupancy therefore offers valuable insight from the provider perspective:

- The most common factor mentioned by providers has been consistent across several years of surveys and is again to the fore in this May 2022 version. The increasing levels of complex needs seen in referrals is the stand-out factor mentioned by providers. The many different descriptors used by respondents illustrates the wide complexity faced by this sector. CSE (Child Sexual Exploitation), CCE (Child Criminal Exploitation), MH (Mental Health), Self Harm, DoLs (Deprivation of Liberty safeguards), Violence, Drugs/substance misuse, EBD (Emotional or Behavioural Difficulties), LD (Learning Disabilities), Gangs, County Lines and other disabilities are prevalent descriptors used.

- Providers again infer that increasing fragmentation of specialist knowledge and experience are required for this increasing complex cohort. The inability to safely match referrals to vacancies after consideration of the need to safeguard existing residents in homes, leads directly to an inability to accept referrals into multi-occupancy homes. This offers an indication that there continues to be professional decision making around the provider sector that will not support high needs placements being made into just any vacancy that exists, irrespective of any economic incentive to do so.

- Respondents also note an increasing specification by searching local authorities for solo placement homes and high staffing levels. This automatically reduces the target capacity available (and is a higher cost model).

- Several providers indicate that they are detecting an increase in numbers of younger children being referred.

- Alongside the matching considerations providers increasingly discuss staffing issues that have reduced their ability to receive children into registered places. Some have gone so far as to mothball or deregister homes due to an inability to maintain staffing levels and expertise appropriate to the service required. Several indicate that host local authorities are opening their own provision and that this may be increasing competition for staff.

- The need for emergency or short notice availability is also noted by respondents, some linking that need to breakdown of fostering placements on an unplanned basis.

- Several specialist providers indicate their services to be full, and thus unable to take more referrals into placements despite the rising demand.

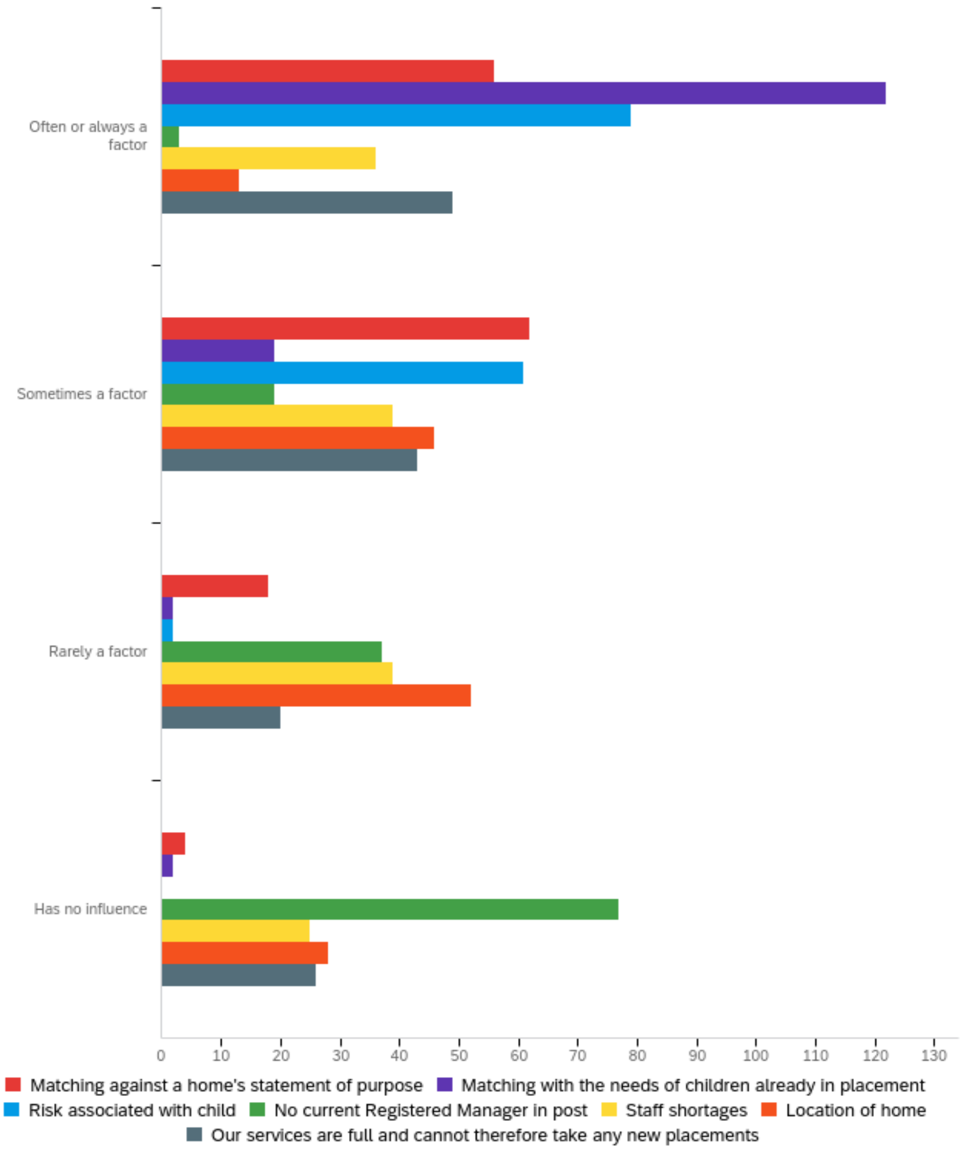
- Providers remain cautious in putting the Ofsted rating of a home at risk through acceptance of an inappropriate referral, or if the information about the young person was lacking.

- One result is that providers report experience of increased levels of re-referrals of children and young people who have either had rapid placement breakdowns in quick succession, or where the local authority has been unable to find a placement and is going around the searching process multiple times. This may be inflating the referral rates reported.

- Some providers also note an increase in referrals for older (16-18) young people with some attributing this to authorities taking on board the need to avoid inappropriate unregulated settings.

To explore the issues that impact on the ability and decision to offer a placement for a referral a structured approach was also used with the following result:

Factors influencing provider decisions to reject referrals



Clearly the matching of the risks in referrals against the needs of existing residents is paramount, with the boundaries set by a home's statement of purpose a strong secondary factor, and one that Ofsted would consider at inspection.

Homes being full is an obvious limitation on further placement.

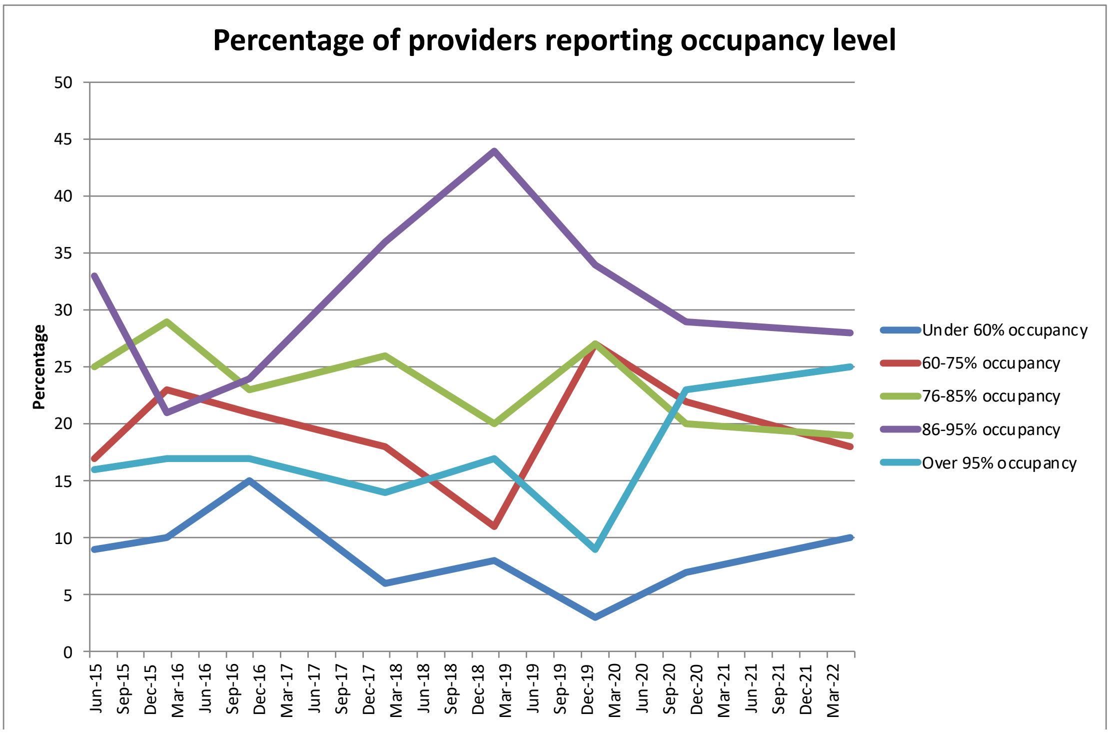
Despite the concerns expressed in relation staffing levels in general, a lack of manager in post is not indicated as a major factor in restricting home's abilities to take referrals. However, the inability to find and recruit new managers is quoted by providers as a barrier to expansion of capacity.

DfE data continues to show more than half (58%) of children placed in residential settings to be placed outside of the council boundary[4] although this ratio has not increased significantly in reported data (to March 2020). Location of the home is not rated as important a factor by providers as compared to the matching of needs, and also reflects a scarcity of commissioning arrangements that seek preferential access to local provision.

An emerging additional factor in some provider decisions to accept or reject referrals relates to their relationship with the referring local authority, and to the adequacy and completeness of the referral documentation and details about the young person. Some providers go so far as to screen out referrals from sources that have previous proven to be incomplete and lacking up to date consideration of risks (fire setting being a typical omission quoted).

Small provider experience closely mirrors that of their larger counterparts, so these are sector-wide influences.

Actual Occupancy levels trend



Reported occupancy rates again show increases at both extremes. A record level for these surveys of 25% of respondents reported occupancy over 95%, and a further 28% have high occupancy above 85%. whilst at the same time those reporting the lowest (under 60% occupancy) levels of occupancy increased to 10% from 7%.

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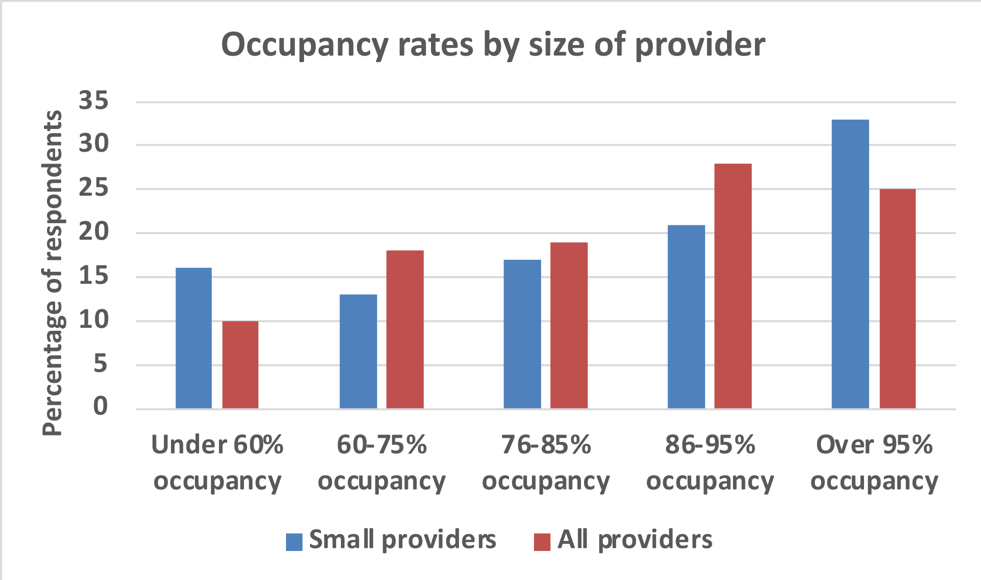
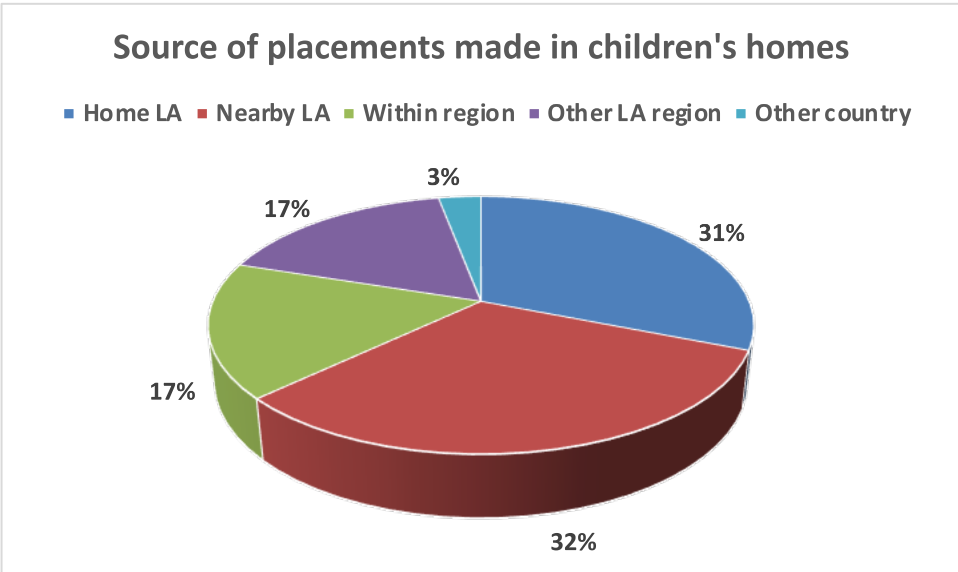
[4] https://explore-education-statistics.service.gov.uk/data-tables/fast-track/81edeb94-b862-49ed-bc7c-dee49345147d

Small providers again reported a more extreme occupancy profile overall with the notable levels of full services but also the most under-occupied services.



A large majority (86%) of providers again reported occupancy rates the same, or only slightly changed compared to the previous survey, although 7% report a significant decrease. Small providers reported trends similarly to the overall sector.

There continues to be wide variability between individual providers in where the placements made with them originate, however the average profile across all providers is shown below:

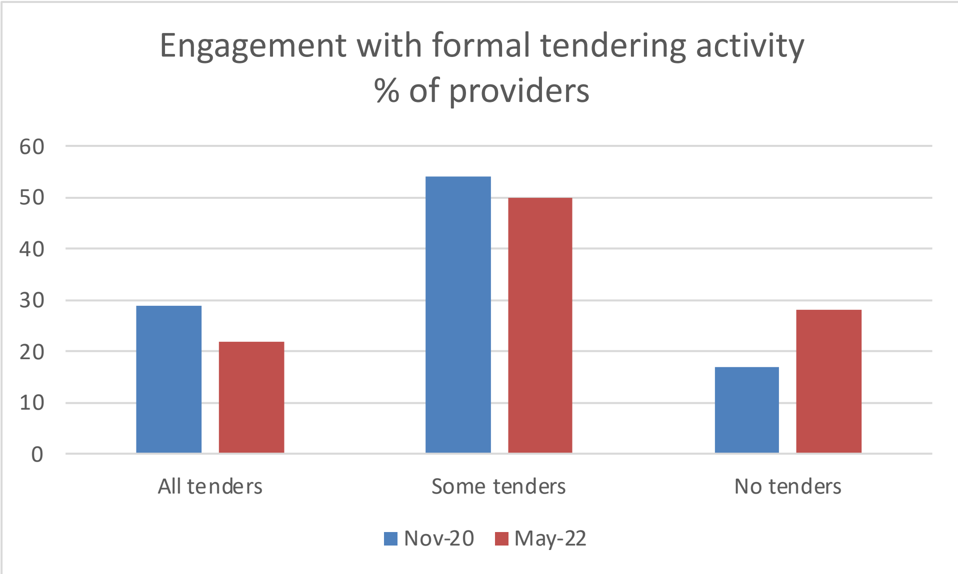


The average profile across all providers is consistent between large and smaller providers, again indicating wide ranging placement activity by purchasers irrespective of provider size.

Spot purchasing activity continues to be the dominant form of contracting with 96% of places purchased this way and only 4% subject to block arrangements. Small providers are even less likely than larger providers to be operating under block arrangements.

Spot activity is split evenly between placements made under a procured framework (also called a dynamic purchasing systems “DPS”) making up 51% of placements, as opposed to those made through open searching around the sector outside of formal procurement frameworks (45%). This applies irrespective of the size of provider.

Further indication of the weakening influence of formal procurement processes on the sector is seen in the trend of lower proportions of providers deciding to engage in those tender processes:



Half (50%) of providers select which processes to bid for (down by 4% on Nov 2020), with 28% now choosing not to apply for any frameworks (up from 17% in Nov 2020). The smaller providers are even less likely to engage with tendering activity, 40% of small providers do not respond to any tenders.

One in six providers (17%) report choosing to leave a commissioned framework in the last year. Fee related issues are often a factor, as are unfair terms and conditions (sometimes as simple as onerous insurance cover requirements) and a realisation that there was no preferred status when all referrals were simultaneously advertised to both on- and off-framework providers. Only one provider reported negative consequences from leaving a framework.

This offers further clear evidence of the way in which current commissioning activity struggles to impact on the sector. The survey explored this in further detail with respondents.

The Nov 2020 survey clearly identified the limited value of sufficiency statements to providers. It is therefore of little surprise to providers that the March 2020 What Works Centre report concludes there is limited evidence of the effectiveness on market oversight and stewardship.[5] Provider responses to this survey offer more detailed insight:

- The geographic location of the authority in relation to the provider's services is the most relevant factor for providers considering engagement with a procurement exercise.

- Providers would actively prefer to work with their closest local authorities based on relationships and previous experiences (where these have been positive and collaborative).

- Newer providers are more likely to look to join local arrangements in order to make themselves known to the officers and professionals of their closest local authorities.

- Procurement processes and tenders are increasingly described as inflexible and onerous, especially for smaller providers. The sheer volume of paperwork and the time commitment necessary to apply is enough to deter providers. Providers feel that commissioners designing specifications and terms and conditions try to be too restrictive. The level of commitment from the participating authorities is also questioned.

- The degree to which providers perceive the procurement to be too weighted towards a cost focus and price control can deter providers from responding.

- Providers also appear wary of any procurement process that may look to weaken the provider's independence of decision making related to appropriateness of placement and matching.

- Providers that have experienced purchasers using framework terms to cap prices and to deny fair inflationary cost-based requests for fee uplifts report leaving the framework early or deciding not to apply when the framework is renewed.

- Small providers feel tender processes are sometimes inaccessible (multiple user-unfriendly portals) and designed primarily for larger providers with the resources to engage.

- Providers that consider their services to be sufficiently differentiated or specialist for particular cohorts of need feel that the simple tiering systems adopted by procurement activity fails to offer them an appropriate structure that they can bid against. They feel the

[5] https://whatworks-csc.org.uk/wp-content/uploads/WWCSC_sufficiency_report_Final_March22.pdf

commissioner does not understand their service and the design of the procurement does not fit them.

- Providers report seeing no difference in demand for their services by not being on frameworks.

The survey asked providers to identify the geographic commissioning arrangements that they rate most highly, and the reasons why. Predictably, there was a wide spread of results, with the larger local authorities and larger commissioning groups being more likely to be mentioned. However, there were no standout performers in terms of number of mentions.

The factors that contribute to providers complimenting commissioning efforts include partnership working, good previous experience of interactions with the authority, location (nearby), trust, regularity of meetings and responsiveness of the authority.

Similarly, when asked to identify the more difficult authorities or commissioning arrangements to engage with a wide-ranging list was also reported, again reflecting the diversity of providers giving feedback from around England and Wales. Some larger authorities attracted a greater degree of criticism than others, but not to volumes that would merit them being singled out in this report.

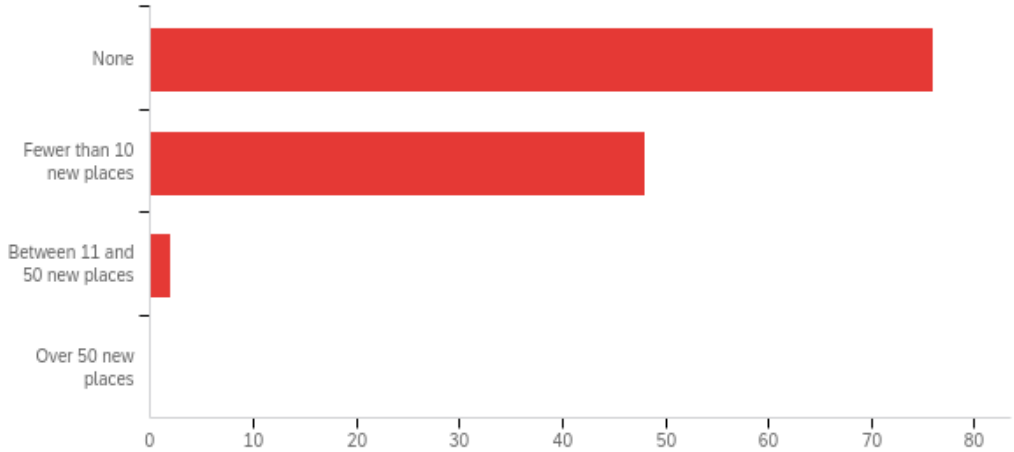
The factors that providers criticise in commissioning and purchasing include financially driven decisions, slow payments, inaccurate referral information, inflexibility, referrals that are sent to all providers irrespective of specialisms or lots, repeat referrals, slow approval of urgent changes to care packages and finally lack of communication and unresponsiveness.

What is happening to capacity?

The uncertainties and operational challenges brought by Covid appear to have deterred some providers from responding to the high referral levels through increases in capacity last year.

The proportion of providers reporting additional capacity investment was down to 40% in this survey compared to over 50% in the previous study.

Number of places added in the last year



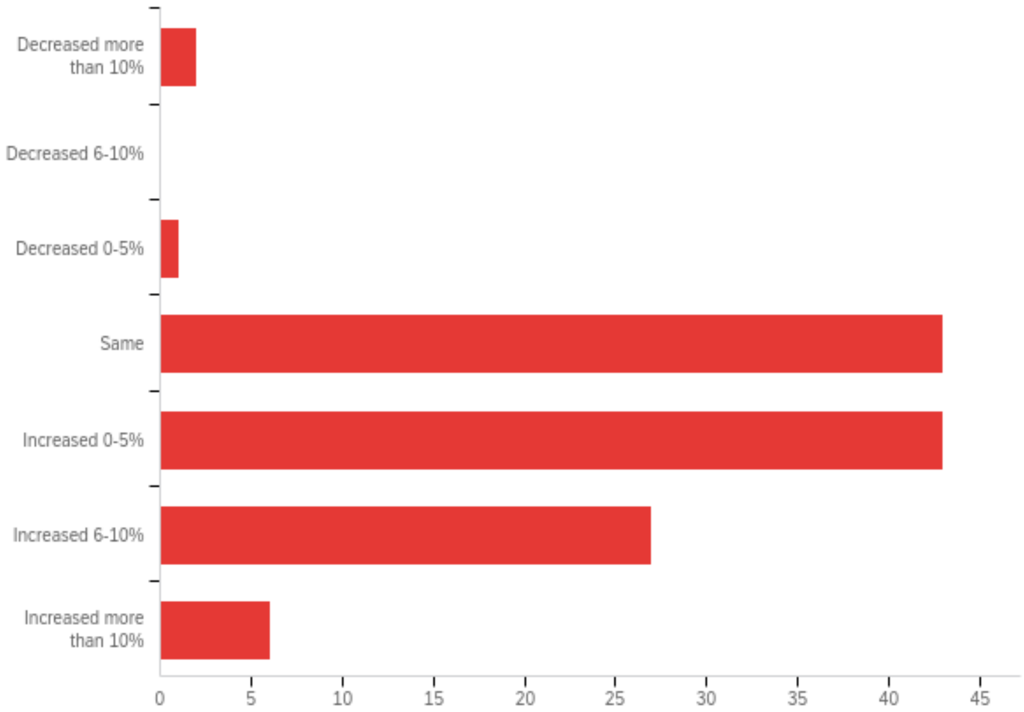
Seventeen providers also reported deregistration of services last year, a threefold increase on the previous survey. The impact of staffing shortages and action taken by Ofsted are amongst the reasons for closures.

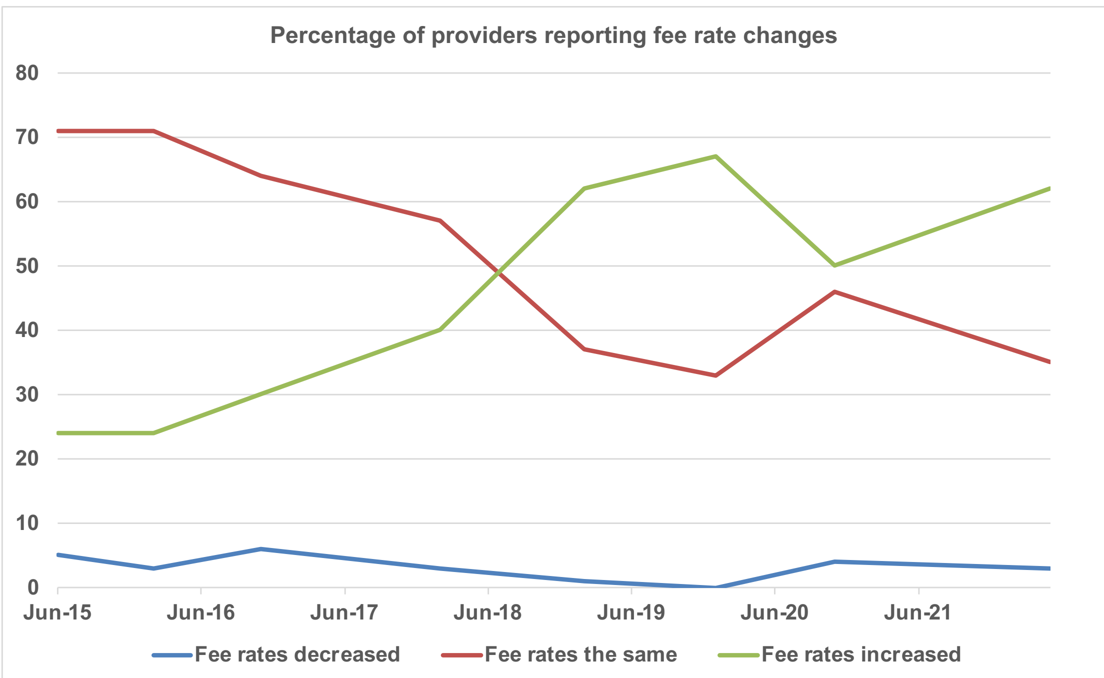
There is partial imbalance in where investment in additional capacity is coming from as only 35% of small providers have added places, and clearly these all fall into the fewer than ten places level. As has been seen in the previous two surveys, capacity growth (organic and through acquisitions) appears to be driven more strongly by the large and medium sized providers, continuing the trend towards further consolidation in the sector.

This backwards-looking picture contrasts with a much stronger intent of the sector to grow as we exit Covid and look forwards (see later discussion on planning for the long-term future).

Prices/Fee rates

Numbers of providers reporting different levels of fee rate changes





More than half of providers reported fee rate increases (62%), the majority (35%) being in the 0-5% bracket, but with 27% reporting increases over 6%. A little over one in three (35%) held prices, and three providers reduced prices. Together this represents an overall increasing of fee rates, which is consistent with the CMA findings for the largest providers, and consistent with the high demand levels indicated by referral trends discussed above.

Fee rate increases continue to be led by larger organisations, with small providers acting more cautiously. More than half of small providers held prices last year with a lower proportion implementing increases in the period.

Over 95 providers also provided indications of the ranges of pricing. The results in the table below imply overall average fee rates marginally higher than the fee rate increases indicated above. This would be consistent with the overall cohort being placed in children's homes having increasing complexity of need and requiring higher resource levels.

£/week	Jan 2020	Nov 2020	May 2022	+/- (%)
Average minimum price	3584	3745	4180	+12%
Average maximum price	4700	4651	5070	+9%
Average mean price	3963	4130	4599	+11%
Average mode price	3919	4100	4690	+14%

Small provides were pricing up to 5% below larger providers in the previous survey but that gap has decreased to around 2% on average in this survey.

This may be related to the specialism of services and intensity of resources involved but would also be consistent with larger providers being more likely to be driving price increases whilst smaller providers show greater caution meaning they are slower to increase prices.

The factors that currently most influence provider pricing strategy and decisions are represented below:

Staffing costs remain a dominant influence on providers (as further indicated later). Many providers link staffing costs to the complexity of needs of the children being placed and the management of the risk that presents with additional staffing levels.

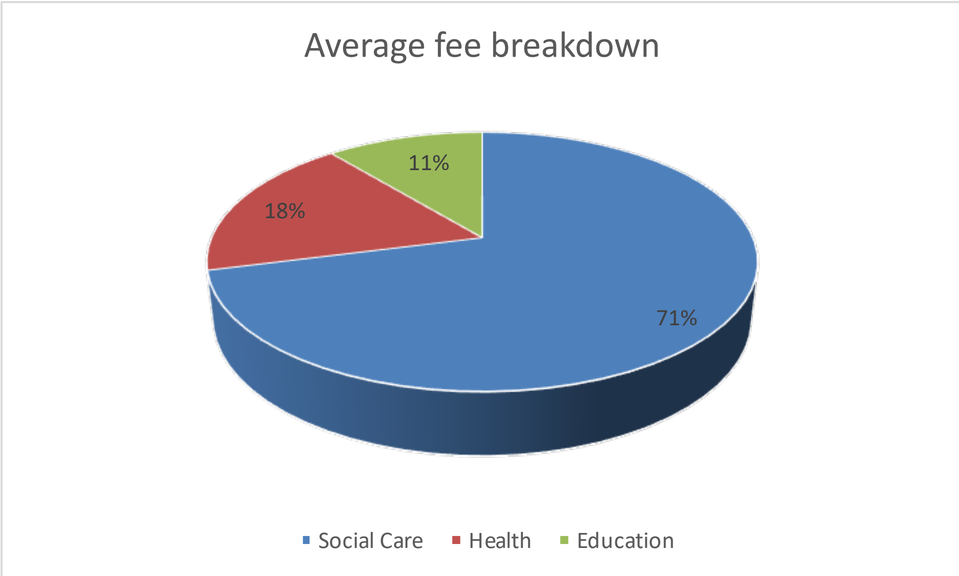
Cost of living pressures are evident both in terms of the need to pay staff above the National Living Wage and to be able to meet the staff's own bills, as well as the direct cost of living impact on energy, supplies and insurances for the children's home itself.

Fee rates also depend on the education and education support included in the package, and in relation to therapeutic inputs.

A handful of providers indicate that frameworks are being used to limit or fix prices, resulting in the need to increases prices for services that are not on frameworks, or to leave frameworks altogether.

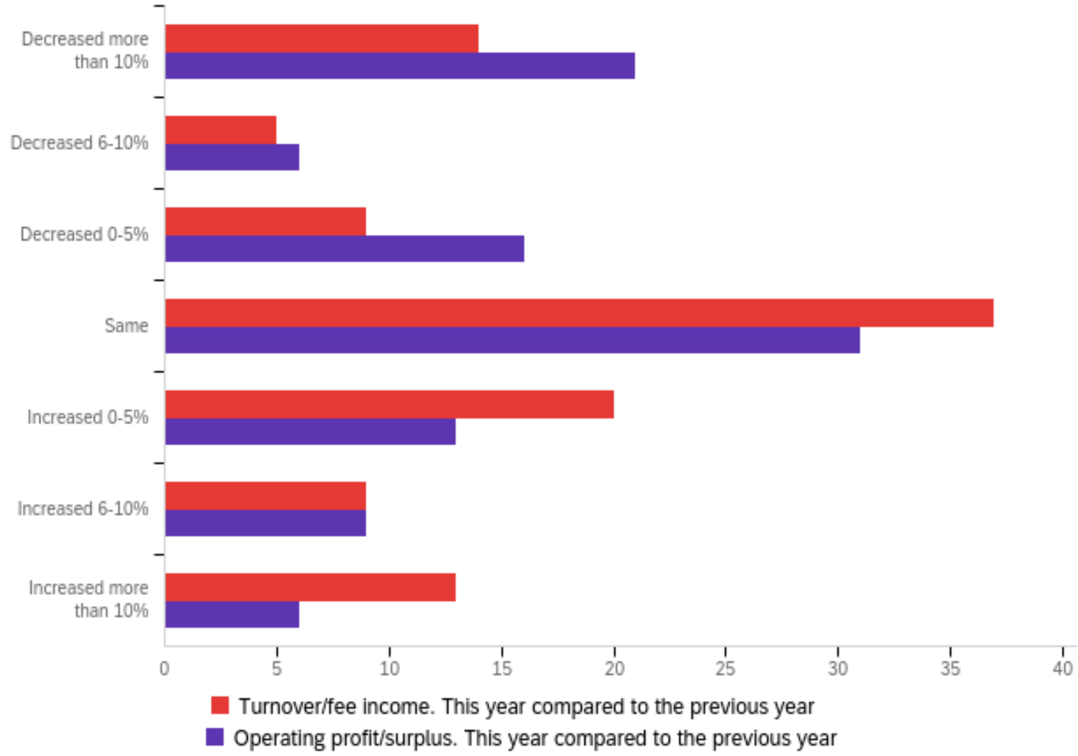
A small minority of respondents discuss the profit motive as a driver of pricing, indicating that some levels of profit are necessary to repay the service set-up costs, to have a contingency for unexpected financial shocks, and to maintain viability.

Providers are often approached by purchasers to analyse their fee or costs split between social care: health: education. Whilst this is often an inexact task this survey also gathered the information, with the overall average result represented below (smaller providers reported a similar breakdown):


Average fee breakdown
11%
18%
71%
Social Care
Health
Education

Turnover and Profit trends

Turnover (Fee Income) and Operating Profit trends: Number of Providers reporting different levels of increase/stability/decrease.



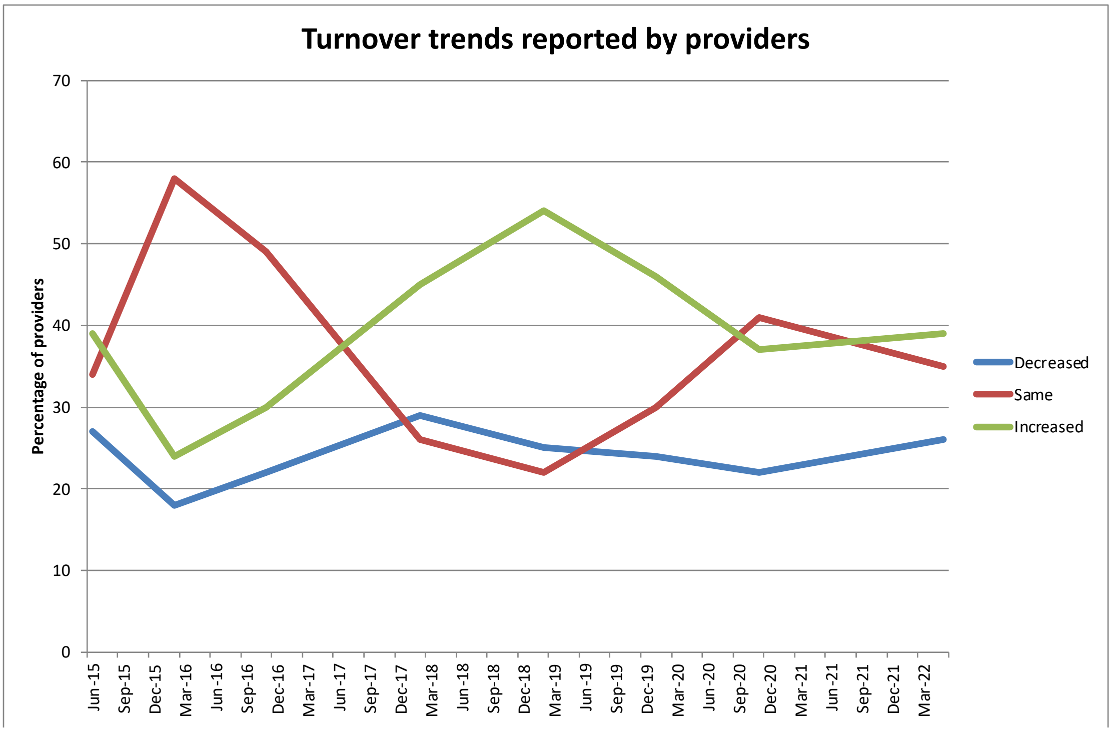
Providers experience a wide range of financial outcomes in the children's homes sector.

As discussed in the preceding sections, this survey reports largely stable occupancy overall, with fee rates stable or moving up on average.

This leads to almost three in every four providers reporting stable or increased turnover/fee income (74% this year vs 78% last time). The 26% reporting a decline in income is however a small increase over last year (22%).

As noted in previous reports, this offers further evidence that, even in times of significant surplus demand, providers experience variable financial outcomes. A driving factor in this is, as discussed earlier, that providers do not prioritise full occupancy over good matching. It also indicates that the services available are not always a good match to what is in demand, confirming the view that commissioning faces a challenge to better influence what providers set up and deliver.

Small providers present a more stable income profile. Whilst almost one third of small provider respondents reported increasing turnover (30%), a larger proportion (50%) reported stable income.



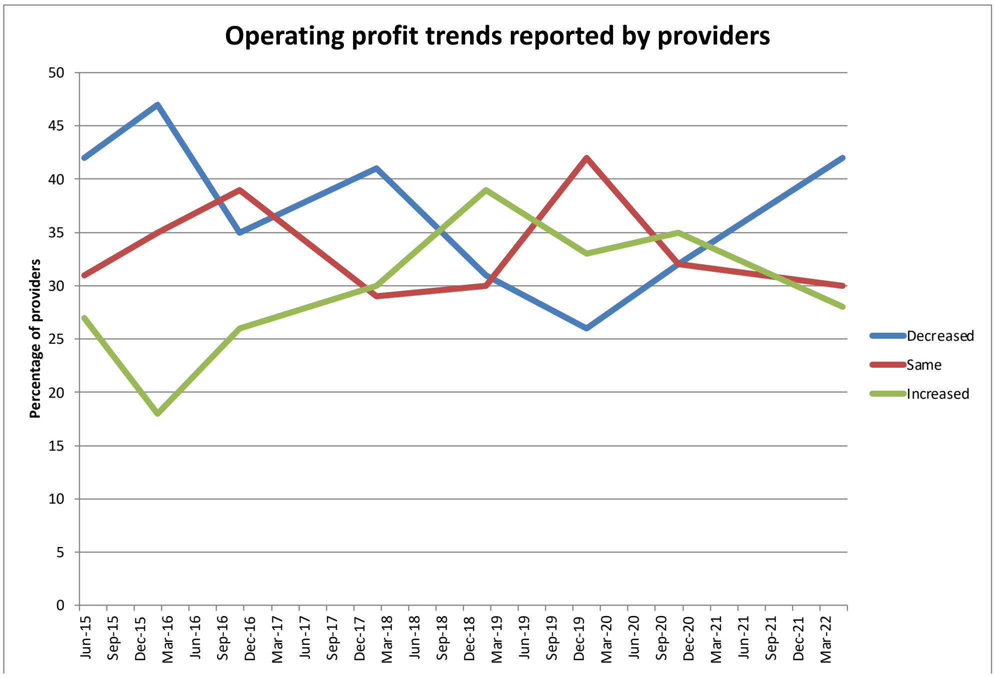
Operating Profits

As the combined turnover and operating profit graphic on the previous page illustrates, operating profits are less stable than turnover.

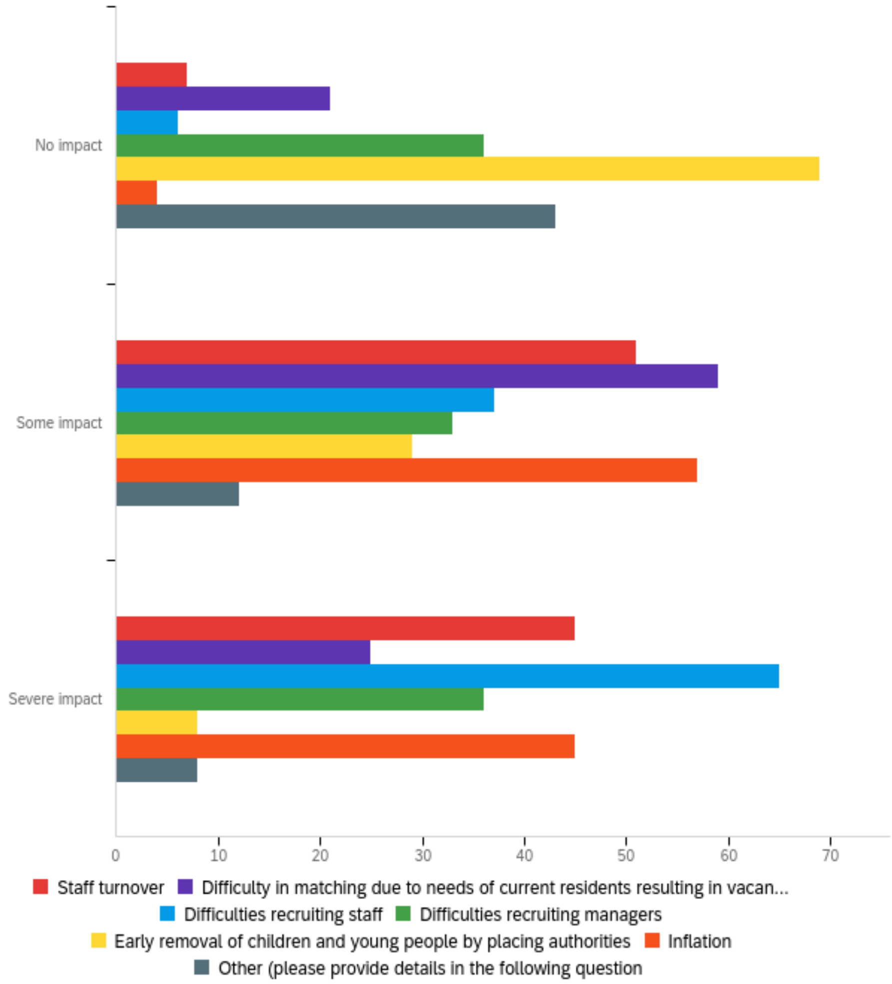
Operating profit trends do not automatically follow the turnover/income trend, as the additional factor of costs (controllable and external), investments in expansion and overall efficiency impact the end result.

In this survey 28% (last year 35%) of respondents reported increases in operating profits, whilst 42% reported a decline (32% last year), i.e., more providers reporting decline than increase.

Small providers again fare worse than the larger providers with only 15% of small providers reporting profit increases, but 45% reporting decline.



The overall decline in operating profitability indicated runs counter to the CMA study of the large providers only and should be of potential concern to the sector as a whole.The reasons behind this emerging picture show a different picture to previous surveys:



Staffing pressures, from retention and recruitment, from NLW increases, from increasing competition driving up salaries, from the Covid disruption period, but now also increasingly combining with cost-of-living pressures are exerting significant financial pressures on providers.

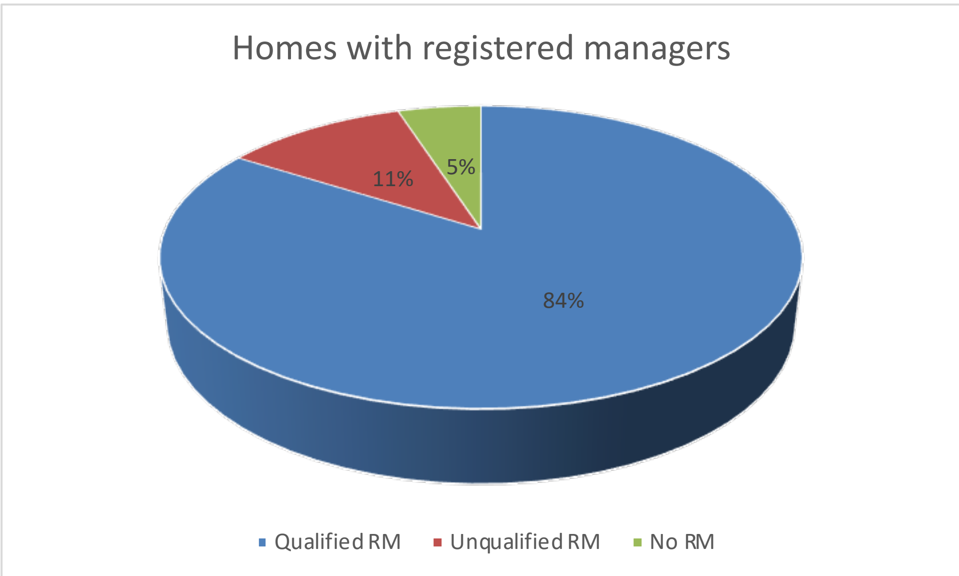
In previous surveys the ability to match placements for this complex cohort was the predominant factor that directly impacted on occupancy rates and voids, and thus the fundamental efficiency of the children's homes models with their high fixed cost structures. Whilst this remains a key factor, the underlying cost pressures are becoming of greater concern.

Other factors reported by providers include the impact of a period of low or zero occupancy if a home has been subject to Ofsted action and requires further investment to return to economic operating levels, and the impact of late payments by local authorities (e.g., in relation to disputed fee rate issues).

Small providers tend to rate the impact of staffing and cost of living inflation issues even more acutely than other providers, an indication of the vulnerability of small providers to cost pressures.

Managers and staff

The survey again collected feedback related to the critical role of home managers and in relation to staffing turnover rates.



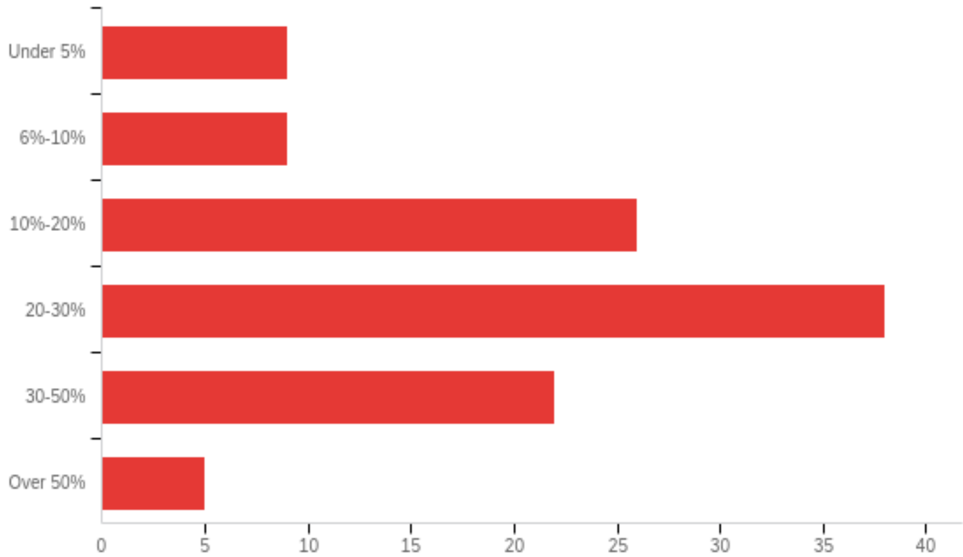
Providers report an improved position in relation to registered managers with 84% reporting qualified managers in post (75% last year).

Small providers on average report similar rates to the whole sector.

Less than 10% of providers report having any managers that have responsibility for multiple homes (even lower amongst small providers at 7%). This potential was introduced by Ofsted in 2021.

Staff turnover ratios are also reported by providers:

Numbers of providers reporting staff turnover levels.



More providers are experiencing higher levels of staff turnover volatility.

Over 60% of providers (smaller providers 55%) reported staff turnover greater than one in five members of staff, a substantial increase on 36% in the previous survey and the highest level recorded.

Only 17% of respondents reported levels of staff turnover below 10%, a halving of stability at this level.

Small providers fare slightly better overall with 21% reporting staff turnover below 10%.

Profit levels

Measures of profit/surplus or loss/deficit give an indication of how providers experience the combined impact of all the variability discussed above along with the impact of financing structures and interest costs. This survey again asked providers to disclose actual profit levels (as a percentage of turnover).

This area of the research traditionally attracts lower response rates and therefore is less representative of the membership.

Many providers were unable to calculate EBITDA as it is not a term used in their normal statutory accounting, so it is not reported here. Up to 75 providers completed the other two measures.

Average provider profit levels – percentage of turnover

Profit Measure	Nov 2020	May 2022	+/-
Operating profit/surplus	8.4	8.3	- 0.1
Net profit before tax	6.2	7.8	+ 1.6

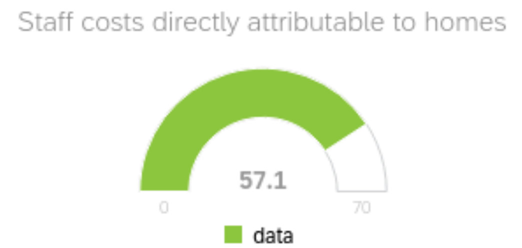
Both measures are considerably lower than those reported for the largest children's services providers in the CMA study.

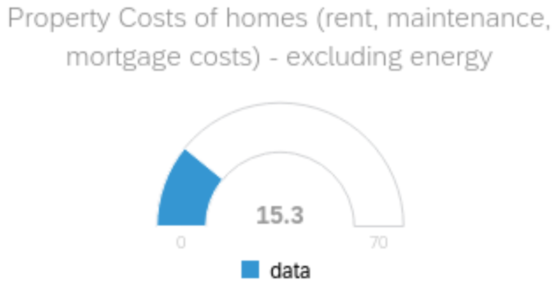
Small providers again on average report profitability significantly lower than the rest of the sector, at around 2-3 percentage points lower.

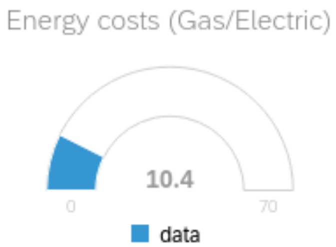
Cost structures

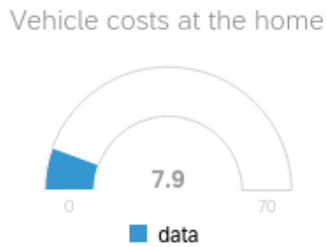
This survey has again gathered some feedback (from around 50% of respondents only so some caution is also advised in use of these figures) to illustrate typical average cost structures in children's homes.

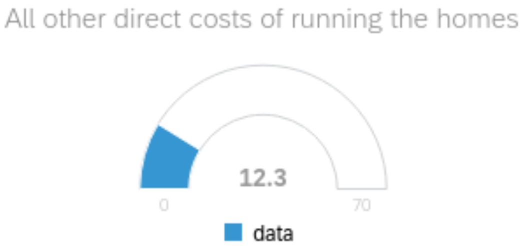
As not all respondents were able to provide all of the data the overall ratios do not sum to 100% so these average percentages are illustrative only.

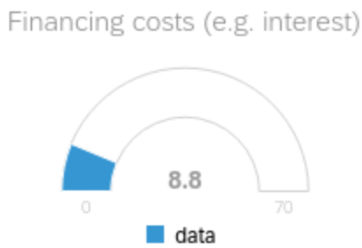










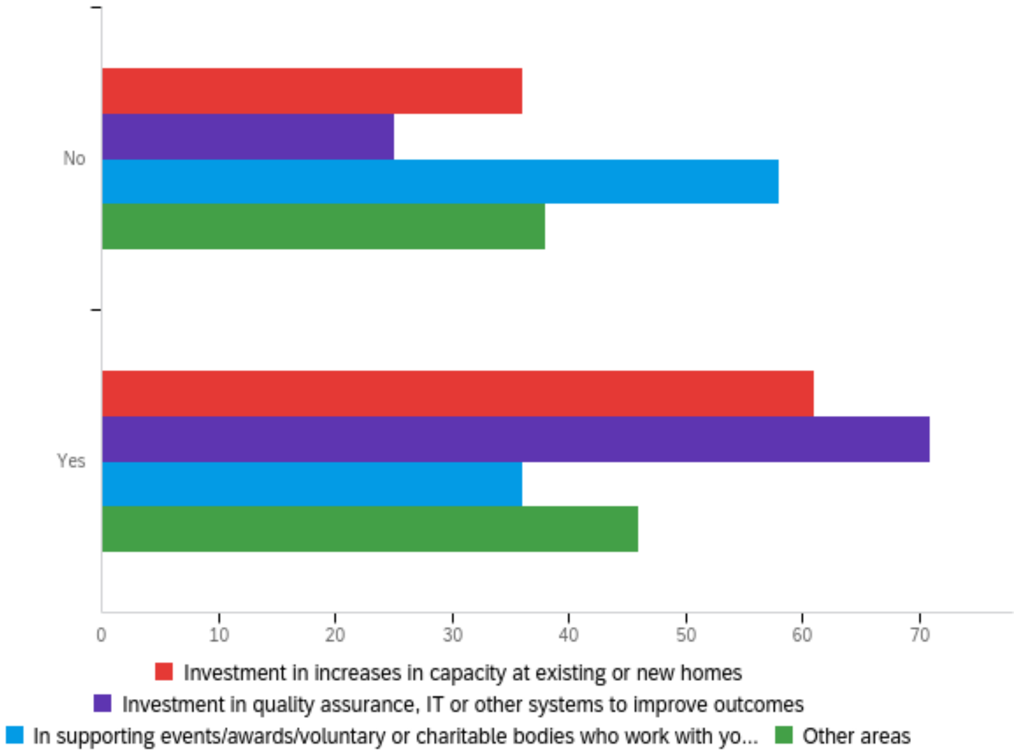


Staffing costs are confirmed as the clear dominant factor in the running costs of children's homes, and this confirms the earlier discussion about the financial pressures that arise when staff costs increase.

Small company cost structures do not differ greatly from the sector overall.

<u>Investment</u>

Where are providers investing currently?

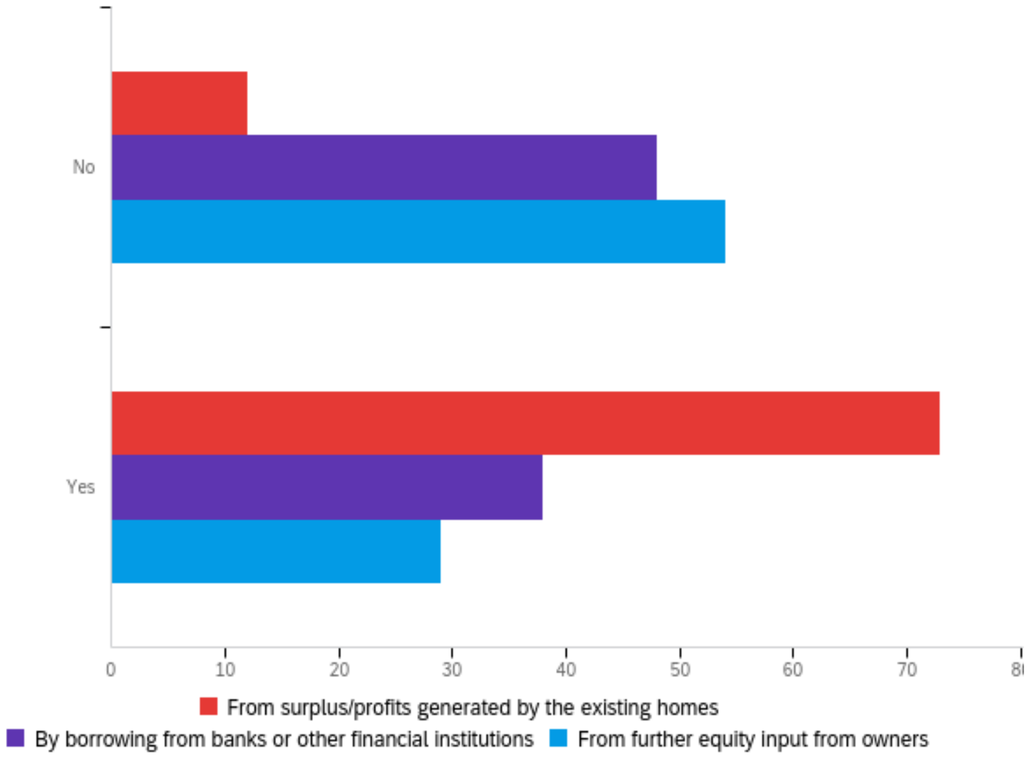


Providers continue to invest in their existing services as a priority, with investments to increase capacity at similar levels to the last three surveys. Investment in services is led by training and education to develop staff, and in clinical input to develop the service to be more therapeutic. There is also some evidence of providers investing more in assessment and research tools.

Small providers have again reported levels of investment in line with the rest of the sector in this survey, including a return to investing in growth in capacity.

Respondents also provided feedback on the source of funding for investment activities, and this also confirms the primary importance of profitability of existing services and the resulting positive cashflow as the primary source of funding.

Where do funds for investment come from?

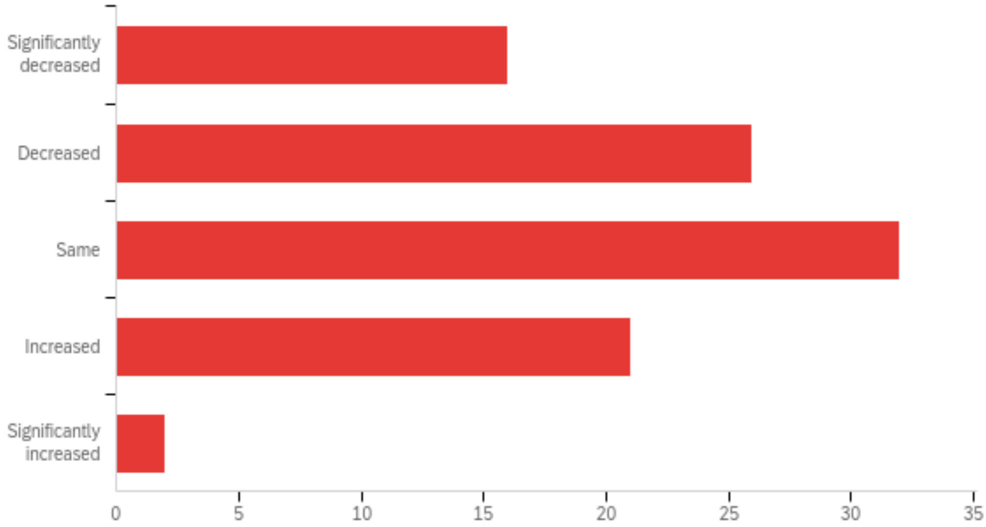


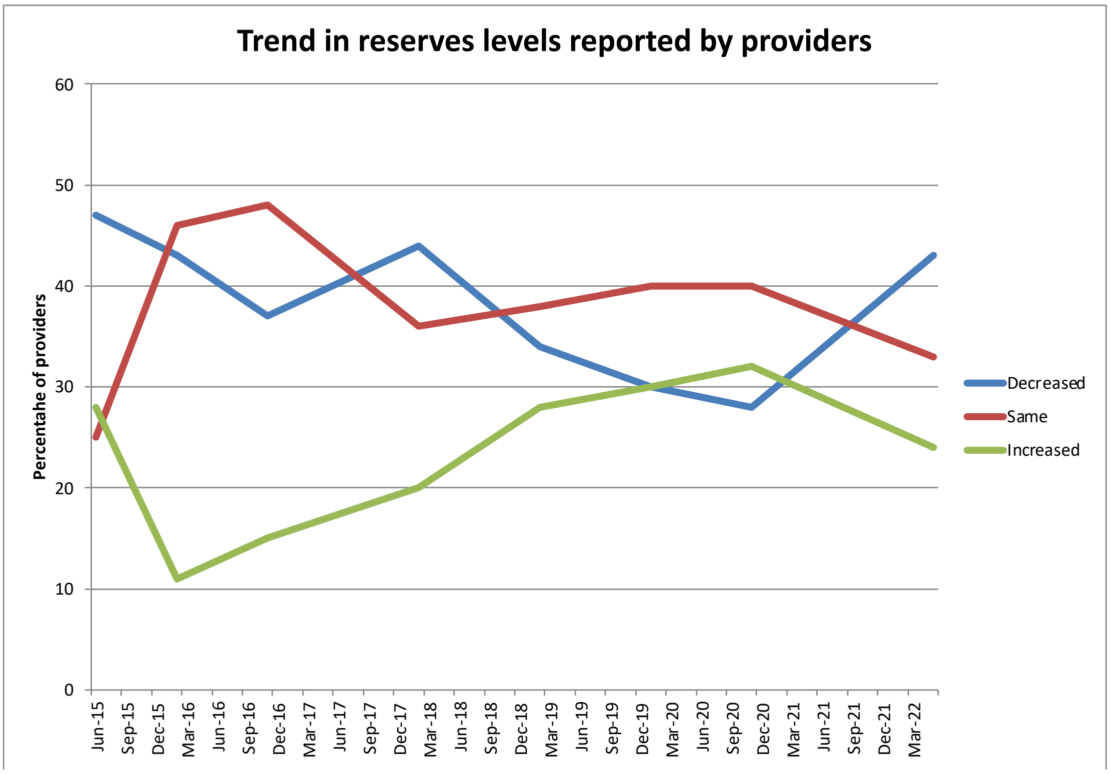
There are clear and consistent messages here for strategic commissioners.

Stability of existing profitability is the most important influence on the intent of providers to maintain and improve quality of services and to invest in further capacity. This is especially the case for smaller providers.

Viability and Reserves

Reserve movements in the last 12 months: Number of providers





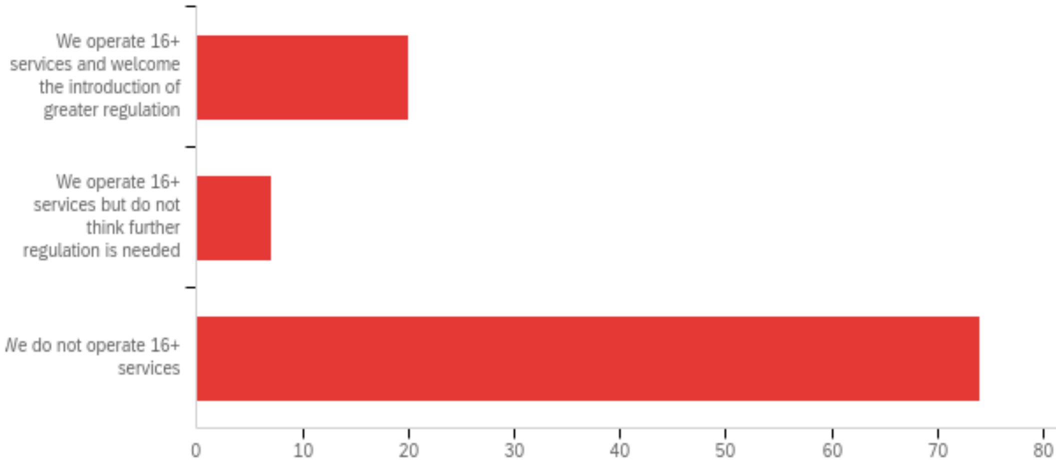
The cost pressures noted earlier in this report appear to have reversed the trend observed a year ago of there being more providers reporting an increase in reserves than a decline. A sharp increase in those reporting a decline in reserves is observed in this study (43% declining vs 28% last time).

Reserves are impacted by the combined effects of operating results and investment already discussed above, but also by funding structures and the servicing of debt and interest. Organisations with substantial reserves are less likely to be vulnerable to volatility of operational results.

The overall sector results mask a more fragile situation for small providers who report a greater vulnerability, with 49% reporting declining reserves, and only 20% reporting increases.

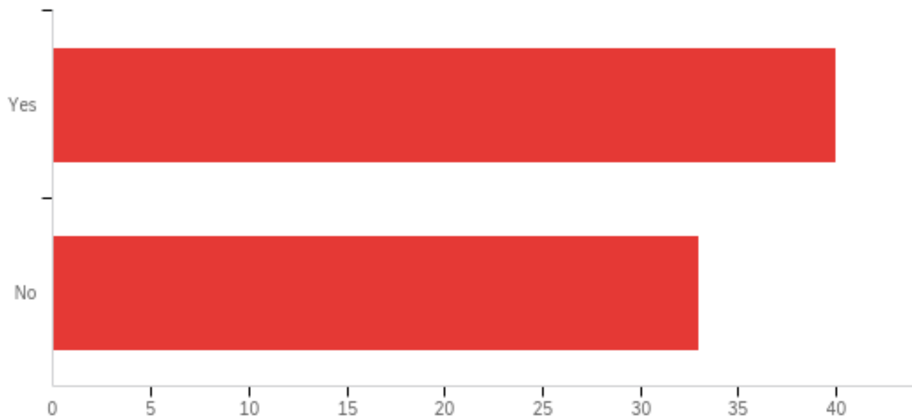
Semi-independent Living and Supported Accomodation

The majority of ICHA respondents (73%) do not operate 16+ services.
Of those that do, around three quarters (74%) support proposals for additional regulation of the currently unregulated semi-independence and supported living sector. Small providers are even less likely to currently offer 16+ services, although over 60% of small providers indicate an interest in such provision when it is regulated.



Over half (55%) of all respondents that expressed an opinion would positively look to open and operate 16+ capacity when regulation is introduced were brought in.

Would you look to provide 16+ services if they were to become regulated?



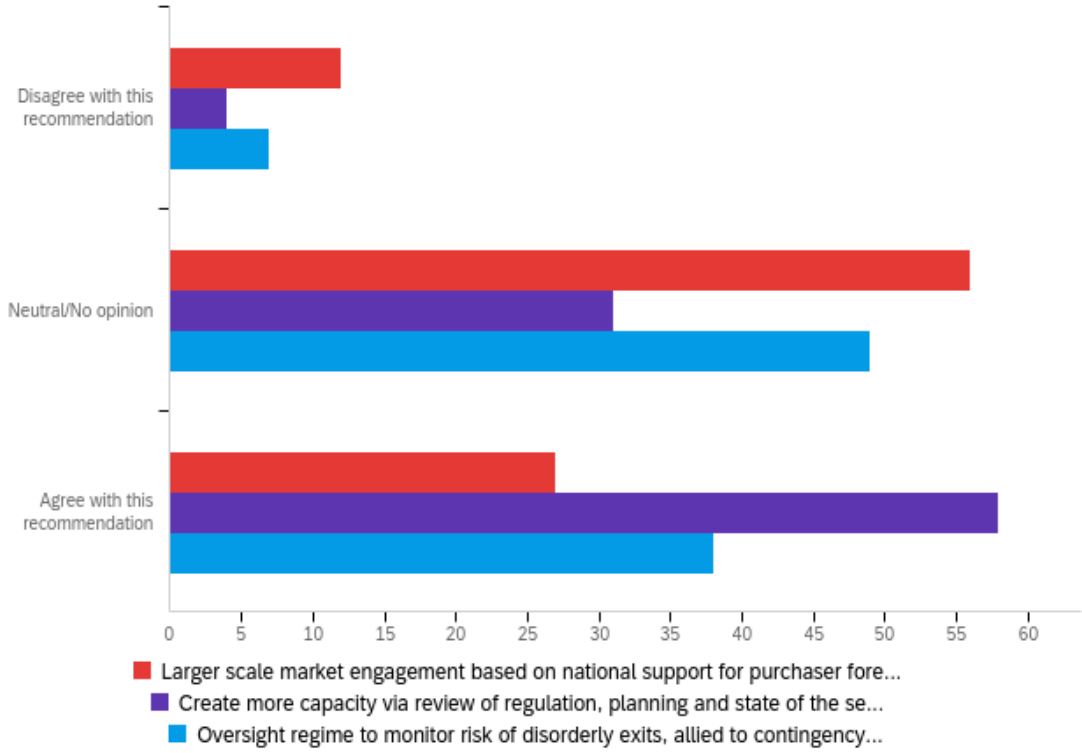
The CMA study

This survey was carried out before the publication of the Independent Review report and therefore does not include feedback from providers on that process. However, the IR requested that the CMA carry out a market study in 2021, the findings of which were published in March 2022, and therefore offered providers the opportunity to comment on that report as part of this survey.

The three main recommendations from the CMA elicit mainly positive or neutral reactions from respondents. The recommendations related to removing barriers to opening more capacity were most welcome (62% in favour). Opinions are more mixed in reaction to the suggestion of larger scale market engagement (28% in favour, 13% not in favour).

Fewer than 10% of providers disagree with market oversight proposals.

The relative size of provider does not significantly alter the profile of reaction to the CMA report.



In narrative comments about the CMA report providers were generally supportive of the study's conclusions but understood it to be part of a process that has yet to see actions implemented.

Some providers felt there had been insufficient understanding of the role of small and medium sized organisations and too little consultation or engagement with providers by the CMA and the Care Review.

Several providers also commented that the influence of Ofsted on the sector was understated.

Planning for the long-term future

A large majority (around 75%) of providers (large and small) continue to plan to grow their services in the next three years in response to the demand they are experiencing, sending a clear signal to policy makers of an increasing willingness to invest post-Covid. Organic growth is the dominant route intended but a few providers also express acquisition intent.

Some providers (20%) are more cautious, planning to consolidate their existing offerings whilst monitoring the impact of the Care Review over the next few years.

Around 5% of providers will either have sold their businesses or transitioned services to CQC registration to meet the needs of older children and young people, quoting problems with Ofsted as a driver to leave the sector.

Several providers repeat the concerns about the cost of opening new provision, the difficulties in recruitment of managers and staff, and especially the Ofsted registration process if it takes longer than anticipated.

The impact on providers of the “eliminate profit agenda” in Wales is also clear. Further investment over that already committed has been halted, and some providers in Wales are pessimistic that they will have to close and leave Wales altogether in the next 3 years.

Methodology

This is the eighth survey of Children's Homes providers in a series that started in June 2015. These surveys continue to provide a comprehensive, consistent and representative review of the sector and are used as a reference source by Government, researchers and academics.

Each survey provides a "point-in-time" picture of the state of the sector based on the reported experiences of providers and based on a set of core questions that remain unchanged between the surveys. This approach allows analysis of trends arising vis the direct comparison of core information to earlier surveys.

Additional thematic questions are made at each individual survey point to investigate in more depth the prominent issues at the time of the survey. For example, the CMA market study and the Independent Care Review feature in this current survey report.

A combination of measurement based (quantitative), and written text based (qualitative) evidence is collected via an on-line survey. Qualitative feedback is thematically coded and summarised to add context and understanding alongside the quantitative analysis in the following report.

As in previous years, this report and analysis looks to detect if small providers and large providers experience the sector differently. Where responses of small providers differ noticeably from the overall results this is highlighted in the report.

The results can be considered to be most representative of the views of the ICHA membership as it is only ICHA members who contribute to the survey.

ICHA commissions this survey from Revolution Consulting and we would like to extend thanks and appreciation to those who thoughtfully and comprehensively completed the survey and for the openness displayed in the responses provided.

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